CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

DISCIPLINE COMMITTEE

IN THE MATTER OF:	A proposed Settlement Agreement between the Professional Conduct Committee of the Chartered Professional Accountants of Ontario and **SHARI A. STOLPMANN, CPA, CA**.
TO:	Ms. Shari Stolpmann, CPA, CA
AND TO:	The Professional Conduct Committee

DECISION MADE OCTOBER 29, 2019

DECISION

After considering the submissions of the parties and the proposed Settlement Agreement itself, the Panel hereby approves the Settlement Agreement, dated September 23, 2019.

DATED at Toronto, this 30th day of October, 2019.

Stuart Douglas, FCPA, FCA
Discipline Committee – Deputy Chair

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST SHARI STOLPMANN, CPA, CA, A MEMBER OF CPA ONTARIO, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

Made pursuant to Section 34 (3) (c) of the Chartered Professional Accountants of Ontario Act, 2017 and to CPAO Regulation 6-2, s.19

Introduction

1. The Professional Conduct Committee ("PCC") has approved four draft Allegations against Shari Stolpmann, CPA, CA ("Stolpmann") the particulars of which are set out below. The Documents referred to in this settlement agreement are found in the Document Brief ("**Doc**"). The applicable CPA Handbook sections are found in the Brief of Authorities ("**Tab**").

2. Each of the draft Allegations (**Doc 1**) pertain to the failure of Stolpmann to perform her professional services in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Chartered Professional Accountants Code of Professional Conduct, with respect to the following engagements:

   a) The audit of the financial statements of "MA" for the year ended December 31, 2016;

   b) The audit of the financial statements of "HWCC" for the year ended April 30, 2017;

   c) The review of the financial statements of "LE" for the year ended September 30, 2016; and

   d) The audit of the financial statements of "HCC" for the year ended July 31, 2018.

3. The PCC and Stolpmann agree with the facts and conclusions set out in this settlement agreement for the purpose of this proceeding only, and further agree that this agreement of facts and conclusions is without prejudice to Stolpmann in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background

4. Stolpmann qualified with Peat Marwick Thorne Brockville and obtained her Chartered Accountant designation in 1991. Shortly thereafter she left public practice to raise children and work in industry until 2009 when she joined her current firm, Beckett Lowden Read, in their Burlington office (now BLR LLP). She moved to the Waterdown office in 2014 and is a partner.

5. BLR employs 38 people, 29 in Burlington and 9 in Waterdown and has 6 partners. Stolpmann has her own team of 6 to 7 plus an additional 4 temporary staff to assist with personal income tax preparation. She has a dedicated manager who is a CPA, CA, a CPA student and 1.5 administrative people included in her team. Approximately 20 to 25% of her work is assurance with the balance being Notice to Readers, personal income taxes and estates.

6. Most of her assurance files, other than condominiums, are prepared by a CPA student or a manager. A manager performs a detailed review and Stolpmann performs the partner review. There is a second partner review performed which consists solely of a review of the financial statements. If a CPA does the detailed review, a second partner review is not performed.

The Complaint

7. Stolpmann came to the attention of the PCC as a result of a referral from the Practice Inspection Committee ("PIC"). The PIC referral related to three engagements, "LE", a review engagement for the year ended September 30, 2016, "HWCC", an audit engagement for the year ended April 30, 2017 and "MA", an audit for the year ended December 31, 2016.

8. The PIC noted a number of deficiencies with respect to the review engagement including a failure to Document inquiry, analytical procedures and discussion with respect to establishing plausibility of income tax provisions, operating ratios, accounts payable and accrued liabilities, revenue recognition and long-term contracts.

9. With respect to the audit files examined the PIC noted a failure to properly Document risk assessment procedures with respect to understanding the entity and its environment, including internal control, a failure to properly Document understanding of internal controls and discussion with management regarding fraud and fraud risk. In addition, the PIC noted a failure to obtain sufficient appropriate audit evidence with respect to fraud risk, sampling, litigation claims, accounting estimates and subsequent events.

10. The PIC determined that the Member failed to maintain necessary professional standards and that their findings were serious enough to reflect adversely on her professional competence.

11. As a result of the referral by the PIC the PCC appointed an investigator to review the files examined by the PIC and to select two other current assurance files for review. One of the additional files selected was the audit of the financial statements of “HCC” for the year ended July 31, 2018.

12. Stolpmann and the PCC agree that the draft Allegations particularized below demonstrate a failure by Stolpmann to perform her professional services in accordance with generally accepted standards of practice of the profession.

1. Shari Stolpmann, in or about the period of December, 1 2016 to March 31, 2017, while engaged to perform an audit of the financial statements of “MA” for the year ended December 31, 2016, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct.

13. MA is a not for profit organization. Stolpmann carried out the audit of the financial statements of MA for the year ended December 31, 2016 (**DOC 5**).

14. Stolpmann did not use checklists to Document the audit procedures they performed and did not use the integrated software of the Professional Engagement Guide (PEG) at the time of the audit.

15. CAS 230 paragraph 8 sets out the Documentation standard for audit procedures performed and audit evidence obtained (**Tab 1**). That standard provides that the audit Documentation shall be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results of those procedures and the audit evidence obtained. It is agreed that this Documentation standard has not been met on this audit.

a. Stolpmann failed to sufficiently Document risk assessment procedures with respect to obtaining an understanding of the entity and its [control] environment;

b. Stolpmann failed to sufficiently Document the understanding of internal control;

16. CAS 315 sets standards for Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment. CAS 315.10 requires the engagement partner and other key engagement team members to discuss the susceptibility of the entity's financial statements to material misstatement and the application of the financial reporting framework (**Tab 2**).

17. CAS 315.32 requires the auditor to include in the audit Documentation: the discussion among the engagement team where required by paragraph 10, and significant decisions reached; key elements of the understanding obtained regarding each of the internal control components specified in paragraphs 14 to 24, the sources of information from which the understanding was obtained and the risk assessment procedures performed; the identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and the risks identified and related controls about which the auditor has obtained an understanding, as a result of the requirements of paragraphs 27-30 (**Tab 2**).

18. CAS 315.14 states that the auditor shall obtain an understanding of the control environment and evaluate whether (a) management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and (b) the strength of the control environment elements collectively provide a foundation for the other components of internal control and whether those other components are undermined by deficiencies in the control environment (**Tab 2**).

19. CAS 315.15 states that the auditor shall obtain an understanding of whether the entity has a process for: (a) identifying business risks relevant to financial reporting objectives; (b) estimating the significance of the risks; (c) assessing the likelihood of their occurrence; and (d) deciding about actions to address those risks (**Tab 2**).

20. CAS 315.17 states that if the entity has not established a risk assessment process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed (**Tab 2**).

21. Although Stolpmann said she discussed with the engagement team the fact that the client was using Accounting Standards for Not for Profit Organizations (ASNPO) and the deferred revenue, none of this discussion is Documented in the notes from the planning meeting. In addition, there is no Documentation of the evaluation made of the overall control environment.

22. There is a risk assessment chart in the working papers with a stated objective to Document and assess the identified risks of material misstatement at the financial statement and assertion levels including business and fraud risks (**Doc 24,25**). While the chart states that controls are in place to mitigate the risks there is no Documentation as to what these controls are.

23. Stolpmann did not obtain an understanding of the information system, including the related business processes, relevant to financial reporting as required by CAS 315.18 and she did not obtain an understanding of how the entity has responded to risks arising from IT as required by paragraph CAS 315.21.

24. As part of understanding the entity, CAS 550.13, 14 require the auditor to enquire of management regarding the identity of related parties, the nature of the relationships and whether the entity entered into any transactions with these related parties and if so, the type and purpose of the transactions (**Tab 3**). The auditor is to obtain an understanding of the controls that management has established with respect to related party transactions. While Stolpmann included a related party representation in the representation letter there is no Documentation in the file.

25. CAS 315. 28 states that a fraud risk is a significant risk. Significant risks require special audit consideration. CAS 240.26 states that the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks (**Tab 4**). CAS 315.27 states that the auditor shall determine whether any of the risks identified are, in the auditor's judgement, significant. (**Tab 2**).

26. Working paper 522 (**DOC 26-27**) notes that revenue recognition is generally presumed to be a fraud risk. In this case membership revenue is the only material revenue source so it would not be possible to conclude that the risk of fraud in revenue is not a significant risk. Although the significant risk column is marked as "yes" Stolpmann did not, in fact, determine whether the risk of fraud in revenue recognition was a significant risk.

27. There is no Documentation of the reasons for the conclusion that risk of material misstatement due to fraud is not applicable to this client as required by paragraph CAS 240.47 (**Tab 4)**.

28. There is insufficient Documentation of the auditor's understanding of internal controls, whether they had been implemented and whether they were effective in preventing or detecting misstatements as required by CAS 315.12, 13 (**Tab 2**).

c. Stolpmann failed to make enquiries of management regarding the processes they undertook for identifying and responding to the risk of fraud, and;

d. failed to make enquiries of those charged with governance with respect to how they exercise oversight of management's processes with respect to fraud;

29. CAS 240.17 states that the auditor shall make enquiries of management regarding management's assessment that the financial statements may be materially misstated due to fraud, their process for identifying and responding to the risks of fraud, management's communication to those charged with governance regarding this and management's communication to employees. CAS 240.18 states that the auditor shall make enquiries of management and others within the entity to determine if they have any knowledge of any actual, suspected or alleged fraud affecting the entity. (**Tab 4**).

30. CAS 240.20 requires the auditor to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud. CAS 240.21 states that the auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (**Tab 4).**

31. Stolpmann enquired into the existence of fraud (**DOC 28**) but made no enquiries regarding the processes management undertook for identifying and responding to the risk of fraud and made no enquiries of those charged with governance, including the Board, with respect to how they exercise oversight of management's processes with respect to fraud as required by the standards.

e. Stolpmann failed to Document the appropriateness of the journal entries selected for review with respect to testing for management override;

32. Working paper 522 (**DOC 26-27**) identifies journal entries as a fraud risk factor. The bottom of the working paper indicates that three journal entries were reviewed. These entries were selected because the first and third ones were considered to be unusual and the second one large. CAS 240.32 states that irrespective of the auditor's assessment of the risks of management override of controls the auditor shall design and perform procedures to test the appropriateness of journal entries (**Tab 4**).

33. There is no Documentation as to the sample design and what types of journal entries were identified as having the potential to be a result of management override and therefore, no Documentation as to the appropriateness of the journal entries selected for review.

f. ***Stolpmann failed to obtain sufficient and appropriate audit evidence to support the statement of financial position items "current deferred membership fees 450,181" and "long-term deferred membership fees 148,278";***

34. The statement of financial position shows current deferred membership fees of $450,181 and long-term deferred membership fees of $148,278 (**Doc 7**). The fee amounts are obtained from the new member application forms and the Association's magazine as they are published there. The Association has a membership database which they use to reconcile the total members. The only audit evidence obtained is a calculation by Stolpmann based on multiplying the number of members times the fees (**Doc 30-31**). This is not sufficient and appropriate audit evidence to support these items on the statement of financial position.

35. There is no audit evidence as to the completeness and accuracy of the database and the auditor did not test the database and therefore, did not audit the underlying data that is being used in the calculation.

g. ***Stolpmann failed to Document the sample design, the rationale for the sample size and selection of items and did not evaluate the results of the sample to determine whether it provided a reasonable basis for the conclusions about the population tested, when performing audit sampling related to inventory and membership fees;***

36. The balance sheet shows inventory in the amount of $38,671 (**Doc 7**). The count memo (**Doc 35**) states "select 3 items from count sheet listings to sample and count, verify accuracy, if error noted, select additional item." The sample size was determined judgmentally and the items were randomly selected based on high value items. There is no Documentation of the rationale for the sample size and selection and no evaluation of the results.

37. The Inventory Count Summary (**Doc 36-37**) shows the 3 items selected and, as there was an error in one of the items, a fourth item was selected. The note on the working paper with respect to the error says that the total difference is immaterial, and an additional sample was chosen.

38. There was no attempt to extrapolate the effect of the error and no Documentation with respect to the rationale for simply replacing the item counted that was incorrect with another item.

39. Membership fees revenue for the year is $759,484 (**Doc 7**). The Detailed Revenue Testing working paper (**Doc 38**) states that they are to pick 4 membership applications at random and to verify the term, Province and amount of the membership. This was tied into the client's membership data base. There was no Documented rationale as to how the sample size of 4 was calculated or how the selection of the items was determined.

40. The auditor did not evaluate the results of the samples to determine whether they provided a reasonable basis for the conclusions about inventory and membership fees.

h. Stolpmann failed to review minutes of the Board as part of her subsequent events enquires;

41. CAS 560.7 (c) states that the audit procedures for subsequent events shall include reviewing the Board minutes (**Tab 5**). Stolpmann did not review the Board and Committee minutes during the year and subsequent to the year end.

i. Stolpmann failed to sufficiently Document procedures to identify and test related party transactions;

42. CAS 550.3 states that the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the appropriate financial reporting framework (**Tab 3**).

43. Note 8 is the related party transactions note (**Doc 16**). Note 8 states that the organization is related to all of the Board members and that they did not receive compensation for their positions on the Board. There is no Documentation as to whether any of the non-compensation transactions were evaluated as possible related party transactions.

44. Stolpmann did not carry out any audit procedures to identify and test potential related party transactions.

j. ***Stolpmann failed to disclose the carrying amount of financial assets measured at amortized cost and at fair value;***

45. Section 3856.38 states that an entity shall disclose the carrying amount of financial assets measured at amortized cost and at fair value (**Tab 6**). This was not disclosed.

k. ***Stolpmann failed to appropriately disclose the cash flows from the components of the restricted fund assets;***

46. The statement of cash flows shows the change in restricted fund assets $31,885, as an investing activity (**Doc 9**). The make-up of the restricted fund assets is shown in note 3 (**Doc 14**) and includes bank accounts, investments, interest receivable and accrued liabilities. These components should not be grouped together as restricted fund assets but should be disclosed with similar items on the statement of financial position.

2. Shari Stolpmann, in or about the period of April 1, 2017 to July 31, 2017, while engaged to perform an audit of the financial statements of "HWCC" for the year ended April 30, 2017, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct:

47. Stolpmann has several condominium corporation audits. The financial statements for HWCC are found at **Doc 44**.

a. ***Stolpmann failed to sufficiently Document risk assessment procedures with respect to obtaining an understanding of the entity and its environment;***

48. Stolpmann failed to gain a sufficient understanding of the client's information system, including related business processes relevant to financial reporting and communication, the preparation of financial statements, recording significant accounting estimates and

disclosures and processing journal entries as required by CAS 315.18 (**Tab 2**) and she failed to sufficiently Document risk assessment procedures with respect to gaining that understanding.

49. CAS 315.27 states that the auditor shall determine whether any of the risks identified are, in the auditor's judgement, significant. CAS 315.28 states that a fraud risk is a significant risk (**Tab 2**). Significant risks require special audit consideration. CAS 240.47 requires the auditor to Document the reasons for a determination that the presumption that there is a risk of material misstatement due to fraud is not applicable to the client if that is the case (**Tab 4**).

50. Working paper 522 (**Doc 59**) states that revenue recognition is generally presumed to be a fraud risk. This is in accordance with CAS 240.26 which states that the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks (**Tab 4**).

51. In summary, although Stolpmann identified the risk of fraud in revenue recognition as significant there is no Documentation in the working paper file rebutting that presumption. Given the fact that the revenue for a condominium corporation is equal to the budget the auditor would normally rebut this presumption for this engagement.

52. In the Fraud risk identification section of the Inquiries with Management working paper (**Doc 62**) question a) asks "Does management have a process for identifying and responding to the risks of fraud?" The audit response is yes but there is no Documentation of what the process is and no evidence that appropriate enquiries of management were made.

b. Stolpmann failed to sufficiently Document the understanding of internal control;

53. CAS 315.12 requires the auditor to gain an understanding of the internal controls relevant to the audit including whether the controls were effective in preventing or detecting misstatements and whether the controls had been implemented. CAS 315.13 states that when obtaining an understanding of controls that are relevant to the audit, the auditor shall

evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to enquiry of the entity's personnel. (**Tab 2**).

54. There is no Documentation in the working paper file of the auditor's understanding of internal controls.

c. Stolpmann failed to make enquiries of management regarding the processes they undertook for identifying and responding to the risk of fraud;

55. CAS 240.17 requires the auditor to make enquiries of management regarding management's assessment that the financial statements may be materially misstated due to fraud, their process for identifying and responding to the risks of fraud, management's communication to those charged with governance regarding this and management's communication to employees. CAS 240.18 states that the auditor shall make enquiries of management and others within the entity to determine if they have any knowledge of any actual, suspected or alleged fraud affecting the entity. (**Tab 4**).

56. The Knowledge of Fraud section of the Inquiries with Management working paper (**Doc 62**) states: "Inquire of management and others within the entity to determine if they have knowledge of any actual, suspected or alleged fraud affecting the entity." The response is yes but there is no Documentation as to what the response was.

d. Stolpmann failed to Document the appropriateness of the journal entries selected for review with respect to testing for management override.

57. CAS 240.32 states that, irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform procedures to test the appropriateness of journal entries (**Tab 4**).

58. Working paper 522 (**Doc 59-60**) identifies the risk of unauthorized journal entries. The bottom of the second page of this working paper notes that the auditor "scanned GL adjusting entries especially around year end for strange items, large items or whole numbers that seem to be out of place - nothing noted." There is no Documentation in

support of these entries and there is no Documentation of the appropriateness of the journal entries that were selected for review.

3. Shari Stolpmann, in or about the period of September 1, 2016 to March 31 2017, while engaged to perform a review of the financial statements of "LE" for the year ended September 30, 2016, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct, in that:

a. Stolpmann failed to sufficiently Document the inquiry, analytical procedure and discussion employed to establish plausibility with respect to:

i. Long-term contracts – work in progress, deferred revenue and revenue recognition;

ii. Income taxes – provision;

iii. Accounts payable and accrued liabilities – completeness;

iv. Inter-relationship / comparison of revenue and gross margin;

v. Accounts and holdbacks receivable.

59. LE was incorporated under the *Business Corporations Act* (Ontario) and is primarily engaged in the construction industry. Stolpmann carried out a review of the financial statements for the year ended September 30, 2016.

60. Sections 8100.23 and .24, state that matters that in the public accountant's professional judgment are important to support the content of the report would be Documented. Supporting workpapers will describe the procedures being undertaken and any unusual matters considered during the performance of the review, including the disposition of such matters (**Tab 7**).

61. There was not sufficient Documentation of the inquiry, analytical procedures and discussion employed to establish plausibility of accounts and holdbacks receivable, work in progress, deferred revenue, income taxes, accounts payable and accrued liabilities, revenue and gross margin.

b. Stolpmann failed to accurately calculate work in progress/deferred revenue for contracts accounted for using the percentage of completion method;

62. Note 1 (a) to the financial statements (**Doc 75**) states that "Revenue on contracts, which provide for progress billings and payments as part of the contract, are recognized based on substantial performance by the percentage of completion method. Deferred revenue in current liabilities represents billings rendered in excess of revenue earned."

63. The percentage of completion method is defined in section 3400.03 (c) as a method of accounting that recognizes revenue proportionately with the degree of completion of goods or services under a contract (**Tab 8**).

64. Section 3400.06 states that in the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. Such performance shall be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract (**Tab 8**). LE engages in long-term contracts so the percentage of completion method is appropriate.

65. There is a working paper that calculates the work in progress and deferred revenue (**Doc 82-83**). If the costs to date are greater than the revenue to be recognized on a contract, this amount is included in work in progress. If the revenue to be recognized is greater than the costs to date on a contract, this amount is included in deferred revenue. Costs to complete were estimated having regard to company budgets and the tendering process. In addition there are excel spreadsheets for each project that support the summary spreadsheet. The company monitors the jobs as they progress and feeds the information into the spreadsheets. None of this is Documented in the working papers and there is no

working paper describing why these estimates can be relied upon to calculate the work in progress and deferred revenue.

66. The Work in progress working paper (**Doc 83**) notes "if contract is not 50% complete or greater, management is not comfortable with the assumption of having reasonable expectation of profit. In those cases, revenue is only recognized to the extent of the costs incurred." The Knowledge of the client working paper (**Doc 84-85**), in the percentage of completion section, states "If contract is not 98% substantial completion or greater, management is not comfortable with the assumption of having reasonable expectation of profit. In those cases, revenue is only recognized to the extent of the costs incurred." The underlying formulae on the spreadsheet uses 50% (**Doc 82-83**). The company has not had any significant losses on contracts historically.

67. Under the percentage of completion method revenue should be recognized as the job progresses. There is no rationale for not recognizing revenue until the contract is 50% complete. The investigator's recalculation of the deferred revenue recognizing the profits on all contracts less than 50% complete shows that the deferred revenue is overstated by $303,842 and revenue is understated by the same amount (see **Appendix A**).

68. There are also a number of contracts that are shown as being 100% complete with no additional costs to complete but they have deferred revenue in the amount of $369,337. If the project is complete and there are no additional costs to complete, this revenue should be recognized and not deferred. Deferred revenue is, therefore, overstated and revenue understated by this amount (see **Appendix A**).

c. Stolpmann failed to accurately calculate the future income taxes payable;

69. Section 3465.22 states that at each balance sheet date, a future income tax asset shall be recognized for all deductible temporary differences, unused tax losses and income tax reductions. The amount recognized shall be limited to the amount that is more likely than not to be realized. (**Tab 9**).

70. The company reports the profits on its contracts for income tax purposes using the completed contract method. The future income tax calculation (**Doc 93**) shows an

adjustment to convert to the completed contract method for income tax purposes from the percentage of completion method used for accounting purposes. This adjustment comes from the work in progress schedule (**Doc 83**), the last column on the schedule totals $9,920,088 which agrees to the future income tax calculation.

71. There are a number of contracts on the work in progress schedule (**Doc 82**) that are shown as 100% complete which were included in the amount deducted for tax purposes. The profits on these contracts should be included in taxable income as they have been completed.

72. The contracts shown as being 100% complete with no costs to complete (**Doc 82**) that were included in the tax adjustment totaled $3,704,967 (**Appendix A**). The future income taxes were recorded using a rate of 26% so the future income tax payable is overstated by $963,000.

73. The company's tax return reported $3.2M of loss carry forwards which were not included in the future income tax calculation (**Doc 93**).

74. The company has profits from contracts which have not been recognized for income tax purposes and has a backlog of profitable contracts per the work in progress schedule (**Doc 82-83**). Because it is "more likely than not" that these losses will be utilized a future income tax asset should have been recorded in the amount of $832,000 being the $3.2M loss carry forward times 26%.

d. Stolpmann failed to disclose the amount due to related corporations as a financing activity in the statement of cash flows;

75. The statement of cash flows (**Doc 74**) shows "Due to related corporations (938,503)" as an operating activity. Lines of credit that are in the holding companies are flowed through to LE and the money is used for operations. These monies should be included in financing activities.

e. Stolpmann failed to disclose the holdbacks receivables as an operating activity in the statement of cash flows;

76. “Holdbacks receivable (2,872,364)” are shown as a financing activity on the statement of cash flows (**Doc 74**). Holdback receivables should be included in operating activities.

f. Stolpmann failed to disclose that unbilled fees are recorded in the amount by which the costs to date exceed the billings for those contracts and incorrectly stated that they are measured at market value;

77. Note 1 (c) (**Doc 75**) is titled “Work in progress” and states that “Unbilled fees are recorded at estimated market value at the time incurred. Unbilled disbursements are recorded at cost.”

78. Work in progress is the amount by which the costs to date exceed the billings for those contracts in that position. Work in progress is not measured at market value.

g. Stolpmann failed to disclose the amount of the line of credit facility outstanding at year end;

79. Note 5 is titled “Line of Credit” (**Doc 77**) and note 8 is titled “Bank Indebtedness” (**Doc 78**). Note 5 discloses a $2,000,000 revolving demand facility while note 8 says there is a $1,000,000 overdraft lending agreement. The banking agreement shows the $2,000,000 revolving demand facility (**Doc 98-99**).

80. The amount of the line of credit facility disclosed in note 5 is correct and the overdraft facility should not be disclosed in note 8. The security is disclosed in note 8 although the disclosure includes a collateral mortgage which is not included in the banking agreement.

81. The amount of the line of credit facility outstanding at year end is not disclosed as required by section 3856.44 which states that an entity shall disclose the carrying amount of any financial liabilities that are secured (**Tab 6**).

h. Stolpmann failed to disclose the company’s liquidity risk and the change in risk exposure from the previous period.

82. Note 9 titled “Financial Instruments and Risks” (**Doc 78**) does not disclose liquidity risk, which is defined in section 3856.A 66 (**Tab 6**) as the risk that an entity will encounter

difficulty in meeting obligations associated with financial liabilities (**Tab 6**). The company has $12,683,221 of accounts payable and accrued liabilities (**Doc 71**) and a working capital deficiency so liquidity risk should be disclosed.

83. Both the accounts receivable and accounts payable are more than double what they were in 2016 (**Doc 71**). Section 3856.53 (b) requires disclosure of any change in risk exposures from the previous period (**Tab 6**). There is no disclosure of the change in risk exposure from the previous period.

4. Stolpmann, in or about the period of July 1, 2018 to November 30, 2018, while engaged to perform an audit of the financial statements of "HCC" for the year ended July 31, 2018 failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code of Professional Conduct,

a. Stolpmann failed to sufficiently Document the understanding of internal control;

84. CAS 315.12 requires the auditor to obtain an understanding of the internal controls relevant to the audit including whether the controls were effective in preventing or detecting misstatements and whether the controls had been implemented. CAS 315.13 states that when obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to enquiry of the entity's personnel. (**Tab 2**).

85. There was no Documentation in the working papers of the auditor's understanding of internal controls as required by the standards.

b. Stolpmann failed to Document the enquiries of management regarding the processes they undertook for identifying and responding to the risk of fraud;

86. CAS 240.18 states that the auditor shall make enquiries of management regarding management's assessment that the financial statements may be materially misstated due

to fraud, their process for identifying and responding to the risks of fraud, management's communication to those charged with governance regarding this and management's communication to employees (**Tab 4**).

87. In the Fraud risk identification section of the Inquiries with Management working paper (**Doc 142**) question a) asks "Does management have a process for identifying and responding to the risks of fraud?" The audit response is yes but there is no Documentation of what the process is and no evidence that appropriate enquiries of management were made.

c. Stolpmann failed to Document the appropriateness of the journal entries selected for review with respect to testing for management override;

88. A significant risk identified on working paper 522 (**Doc 139**) is the risk of unauthorized journal entries. CAS 240.32 states that irrespective of the auditor's assessment of the risks of management override of controls the auditor shall design and perform procedures to test the appropriateness of journal entries (**Tab 4**).

89. The auditor notes on working paper 522 (**Doc 140**) that they "…scanned GL adjusting entries especially around year end for strange items, large items or whole numbers that seem to be out of place – nothing noted." There is no Documentation that the auditor examined the support for these entries and no Documentation of the journal entries that were examined.

d. Stolpmann failed to sufficiently Document the corporation's investment in and related expenses of a shared facility;

90. The Statement of Financial Position shows an amount due to a shared facility of $3,706 (**Doc 117**) and the Statement of General Operations shows expenditures for the shared facility of $325,831 (**Doc 120**).

91. Note 1 (e) (**Doc 123**) states that the investment in the shared facility is subject to significant influence, therefore, it is recorded using the cost method. Note 7 (**Doc 127**) describes the shared facility as a shared facility with another condominium corporation and the costs of operating this facility are shared equally by the two condominium corporations. There is

also a separate statement of financial position and statement of expenditures included in the financial statements (**Doc 131-132**).

92. There was no Documentation of any audit evidence in the working paper file with respect to the corporation's investment in, and related expenses of, the shared entity as required by the standards.

e. Stolpmann failed to obtain sufficient and appropriate audit evidence to support the statement of financial position item "long-term reserve fund investments 2,766,632".

93. The Statement of Financial Position shows long-term reserve fund investments of $2,766,632 (**Doc 117**). There is a schedule of the securities that make up this total and copies of the investment account statements from Scotia Wealth Management and RBC Direct Investing Inc (**Doc 146-151**).

94. CAS 330.18 states that irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure. CAS 330.19 states that the auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. Paragraph A48 states that external confirmations are frequently relevant when addressing assertions associated with account balances and their elements and identifies investments held for safekeeping by third parties as an example of when external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement. (**Tab 10).**

95. None of these investments were confirmed as the auditor solely relied on management to provide information with respect to the entity's investments. There is no Documentation in the working papers that statements of the investments were examined. The failure of the auditor to confirm the existence of the investments resulted in a failure to obtain sufficient appropriate audit evidence to support the long-term reserve fund investments of $2,766,632.

Terms of Settlement

96. Stolpmann and the Professional Conduct Committee agree to the following Terms of Settlement:

a) Reprimand in writing by the Chair of the Discipline Committee;

b) Stolpmann will pay a fine in the amount of $5,000 within 6 months of this agreement receiving approval of the Discipline Committee;

c) Stolpmann shall, within 30 days of the approval of this Settlement Agreement, enter into a Supervision Agreement approved by the Director of Standards Enforcement (“the Director”) with a Supervisor approved by the Director who will review all assurance work undertaken by Stolpmann for a period of 18 months after the Discipline Committee accepts this Settlement Agreement, with the 18-month supervisory period to commence with the first assurance work undertaken by Stolpmann following approval of the Settlement agreement;

d) Stolpmann will attend, within 12 months of the time the Discipline Committee accepts this Settlement Agreement, the following professional development courses offered by CPA Ontario (or their successor course):

   1. Auditing and Accounting for Ontario Condominium Corporations;
   2. Audit Engagements – Application of the Standards using PEG;
   3. Review Engagements – Application of the Standard;
   4. Assurance Standards – Update 2019: Auditors

e) The Professional Conduct Committee will re-investigate Stolpmann following the period of supervised practice with the costs of the re-investigation, up to $3,500, to be borne by Stolpmann;

f) Notice of the terms of this Settlement is to be published in the manner set out in the CPA Ontario Regulation 6-2, sections 45, 50 and 52, including notice to be given to all members of CPA Ontario, the Public Accountants Council and all provincial CPA bodies;

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g) Stolpmann will pay costs in the amount of $15,000 within 6 months of this agreement receiving approval of the Discipline Committee;

h) A failure by Stolpmann to comply with any of the terms of the settlement will result in her suspension from membership in CPA Ontario which suspension will continue until she complies provided that if her suspension under this section continues for three months her membership in CPA Ontario will be revoked with full publicity in accordance with Regulation 6-2 section 48.

97. If for any reason this Settlement Agreement is not approved by the Discipline Committee, then:

a) This Settlement Agreement and its terms, including all Settlement negotiations between the Professional Conduct Committee and Stolpmann leading up to its presentation to the Discipline Committee, shall be without prejudice to the Professional Conduct Committee and Stolpmann; and

b) The Professional Conduct Committee and Stolpmann shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new Settlement Agreement, unaffected by this Settlement Agreement or the Settlement Negotiations.

Disclosure of Settlement Agreement

98. This Settlement Agreement and its terms will be treated as confidential by the Professional Conduct Committee and Stolpmann, until approved by the Discipline Committee, and forever if for any reason whatsoever this Settlement Agreement is not approved by the Discipline Committee, except with the written consent of the Professional Conduct Committee and Stolpmann, or, as may be required by law.

99. Any obligations of confidentiality shall terminate upon approval of the Settlement Agreement by the Discipline Committee.

All of which is agreed to for the purpose of this proceeding alone this 23 of September 2019.

Julia McNabb, J.D.
On behalf of
The Professional Conduct Committee

Shari Stolpmann, CPA, CA
on her own behalf